From austerity to indebtedness and back

Article (Accepted Version)

From austerity to indebtedness and back

ANDREAS ANTONIADES

Austerity emerged (yet again) as a powerful *ordering* device in the unstable sociopolitical environment of the global economic crisis. Its effectiveness as an ordering device has been based on its commonsensical nature. The narrative of austerity offers a clear explanation about what went wrong (living beyond our means) and what needs to be done (government spending cuts to address the crisis generated by us living beyond our means). It is all about excess and payback.

One research strategy to unpack austerity's narrative is to tackle it head on. Either by analysing where the economic crisis came from (i.e. how private sector liabilities were transformed into public debt) or by examining austerity policies' dismal historical record in exacerbating poverty, and wealth and income inequalities, as documented by Mark Blyth in his book Austerity: A History of a Dangerous Idea. In this brief piece, I am following a different strategy. I highlight the *excess* targeted by the austerity narrative, and examine why and how it was generated in the first place. In doing so, I hope to illustrate that this excess does not signify a deviation or an exemption from the 'normal' mode of operation of our socioeconomic system. Rather this excess constitutes a defining element and precondition for the functioning of our economies and societies. In this context, austerity can only be a temporary fix (a redistribution mechanisms) that does not touch upon the causes of the problem. Therefore, no matter how hard and how often belts will be tightened, the problem of excess, or to use more concrete language, the problem of debt, will keep coming stronger and stronger, crisis after crisis.

Leaving aside theories on what generates debt and indebtedness, it is well-documented that the rise of financial capitalism from the mid-1980s onwards marks a period in the history of global economy where we have seen a steady decline of labour's contribution to GDP, or to put it more generally, a decline of households' income especially in the most financialised economies. How was this problem (of diminishing aggregate demand) addressed? Through credit expansion. So long as 'real money' was not available in the quantities needed to sustain the living standards and consumption needs of our consumer societies, plastic/virtual money emerged to keep the existing socioeconomic system afloat. Whether this was a spontaneous response or a calculated and managed development is beside the point here. What is important is that through these processes credit/debt became the *new money*, the main 'new currency'. What were the implications of this change? The lives of large parts of the global population were monetised and entered a new economic regime of governance dominated by creditor-debtor relationships. Also, during this period global debt levels (public and private) and inequality got out of control.

If the raising of debt as 'new money' constitutes a systemic transformation, rather than an act of irresponsibility and profligacy by borrowers and lenders, then two important questions need to be asked: what has been driving this transformation and where has debt as 'new money' come from? Here we need to bring into the picture the issue of economic growth. Critical economic authors usually cast the relationship between debt and growth in the following terms. Increasing levels of debt necessitate increased rates of growth to reduce these debt levels (for debt is calculated as a percentage of GDP). But increasing growth rates leads to higher credit and debt levels, which necessitate yet again faster growth, a vicious cycle that leads to economic collapse. This analysis is of course correct. But it would be a mistake to reduce the thirst for growth to the ‘debt drive’ of the modern economies. It seems to me that along with the ‘debt drive’ that dominates our financialised economies, there is also, independent of debt, a ‘growth drive’. Our numbers/statistics, our political and economic institutions, our minds and predispositions, our debt sustainability models are fixed on growth as the main measure of economic sustainability and success. This old problem with our obsession with growth is as relevant today as ever, and so long as the ‘growth drive’ governs unchallenged in our societies and mindsets, it will be really difficult to escape the current ‘debt trap’.

Yet, an important set of question remains. How has all this new money been created and at what cost? Were there any credible alternatives? These questions lead us to the phenomenon of the privatisation of ‘money creation’ that gradually came to dominate advanced economies from the 1980s onwards and which spread internationally through structural adjustment programmes. The numbers are staggering here too. For instance, approximately 97% of the money currently in circulation in the UK is credit money that has been created by private banks, rather than the Bank of England. And the way in which this money has been created is by lending to households and corporations (i.e. by debt creation). Or to give another means of comparison, in the US the amount of interest paid by US citizens each year since 1978 has exceeded the amount of money paid by citizens in federal taxes. Therefore, we cannot understand and deal with how our debt societies function without understanding and dealing with the way in which money is created today (for recent insightful research see BoE and NEF).

The austerity narrative erases all these systemic transformations – the rise of debt as last resort new money, the growth fixation as a key systemic driver for debt generation, and the privatisation of money creation as the key mechanism through which these transformations were materialised – and rather focuses on debt creation as an abnormality and a one-off problem. This is despite the fact that all evidence points to the opposite direction. For example, in the US, all categories of household debt are already back on the rise, while student loan debt has become the largest category of household debt after mortgages (total outstanding student loan debt was $1.26 trillion in the first quarter of 2016). Similarly, in the UK the household debt-to-income ratio has started to rise again, and household debt is projected to exceed 160% of household disposable income by the end of 2020, thus approaching its 2007/2008 highs (see page 70 of the latest OBS). Furthermore, according to a 2016 Sutton Trust report, students in England are now more indebted in comparison to their US counterparts after graduation, facing debts of over £44,000 at graduation compared to £29,000 for graduates of US private for-profit universities. And at a global level debt has increased by $57 trillion since 2007 and no major economy has decreased its total debt to GDP ratio, as pointed out by the 2015 McKinsey Global Institute report.

This brings us to our last point/question. How can we change our debt based socioeconomic system? How can we undo life in debt? If the above analysis is (at least partly) correct then intervention needs to take place in at, at least, two areas. The first one is the area of the ‘growth drive’. The second is ‘money creation’. Of course challenges and changes in these areas require challenges and changes in the broader valorisation and knowledge/epistemic systems on which these areas are based.

Moving from a growth-driven model of political economy to a different model is not easy and will take time (unless mediated by a socio-environmental catastrophe). But small steps can generate large-scale ruptures and changes. For instance, reassessing what we count as growth and GDP is paramount. Changes have been happening in this regard. At the end of 2014, ONS included in the UK GDP two new ‘items’: money made by illegal drugs (approx. £6.7 billion) and prostitution (approx. £4.3 billion). The question then arises, is this the best we can do in redefining GDP? We certainly need to keep pushing for bringing ‘what counts as GDP’ closer to ‘what counts to us’, what we value as a society. In this context the introduction by ONS of a new survey and statistical series that aim to capture aspects of the ‘quality of life’ beyond GDPis a positive step. But again much more need to be done both in terms of methodology and in ways of mainstreaming alternative measurements. As feminist economists have long argued, changes in what we count as GDP and how we measure well-being are not about numbers but about defining and designing appropriate socioeconomic strategies for a better future.

The second area of intervention refers to the existing regime of ‘money creation’. The existing system of privatised money creation has produced immense instability; after being bailed out by taxpayers, it has taken the banks that were ‘too big to fail’ in 2008 and made them bigger and has led to socially destabilising inequality. Thus, unless we start discussing and redesigning the principles of our monetary system, the causes of indebtedness of our financialised societies cannot be effectively addressed.

To conclude, thinking that the debt conundrum of our societies can be addressed through austerity is naïve and dangerous. Austerity exacerbates the problem of indebtedness, without addressing any of its root causes.